

**Audited Consolidated Financial Statements  
and Supplementary Information**

**INTERFAITH WORKS, INC. & AFFILIATE**

*June 30, 2014*

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# Independent Auditor’s Report on the Consolidated Financial Statements

To the Board of Directors  
Interfaith Works, Inc. & Affiliate

We have audited the accompanying consolidated financial statements of Interfaith Works, Inc. & Affiliate (the Organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional revenue and expense, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

## Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## **Opinion**

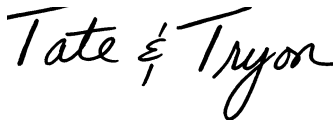
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Interfaith Works, Inc. & Affiliate as of June 30, 2014, and the consolidated changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Summarized Comparative Information**

We have previously audited the 2013 consolidated financial statements of the Organization, and our report dated October 11, 2013, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a separate report dated October 17, 2014, on our consideration of the internal control over financial reporting and on our tests of the compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters related to Interfaith Works, Inc. (IW). However, our report in accordance with *Government Auditing Standards* does not extend to Interfaith Housing Coalition, Inc. (the affiliate). The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.



Washington, DC  
October 17, 2014

# Interfaith Works, Inc. & Affiliate

## Consolidated Statements of Financial Position

<i>June 30,</i>	2014	2013
<b>Assets</b>		
Cash and cash equivalents - Notes B & C	\$ 684,449	\$ 774,999
Investments - Notes B & D	288,764	251,513
Accounts receivable	439,905	241,247
Promises to give - Note E	59,246	60,145
Prepaid expenses and other assets	84,559	90,098
Property and equipment - Note F	1,675,374	1,814,320
<b>Total assets</b>	<b>\$ 3,232,297</b>	<b>\$ 3,232,322</b>
<b>Liabilities and net assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 354,107	\$ 295,865
Tenant security deposits - Note G	7,752	7,969
Forgivable notes payable - Note H	593,318	768,318
Notes payable - Note I	934,658	970,306
Total liabilities	1,889,835	2,042,458
Commitments and contingencies - Note N	-	-
Net assets		
Unrestricted - Notes J & K	1,252,822	1,081,300
Temporarily restricted - Note J	89,640	108,564
Total net assets	1,342,462	1,189,864
<b>Total liabilities and net assets</b>	<b>\$ 3,232,297</b>	<b>\$ 3,232,322</b>

See notes to the consolidated financial statements.

# Interfaith Works, Inc. & Affiliate

## Consolidated Statements of Activities

<i>Year Ended June 30,</i>	2014	2013
<b>Unrestricted activities</b>		
Revenue and support		
Donated goods, facilities, and services - Note L	\$ 5,976,813	\$ 5,258,530
Federal, state, and county contracts	4,175,028	3,054,304
Contributions	681,556	750,976
Rental income - Note G	283,258	290,678
Program income	212,673	194,791
Investment income - Note D	37,614	24,181
	<b>11,366,942</b>	<b>9,573,460</b>
Special events	122,181	199,930
Less costs of direct benefits to donors	<b>(14,893)</b>	<b>(18,867)</b>
	<b>107,288</b>	<b>181,063</b>
Net assets released from restriction - Note J	<b>384,092</b>	<b>519,801</b>
Total revenue and support	<b>11,858,322</b>	<b>10,274,324</b>
Expense		
Program services		
Interfaith Clothing Centers	5,555,628	4,825,349
Homeless Services	4,845,534	3,990,480
Interfaith Housing Coalition	393,050	470,871
Congregation & Community Emergency Support	256,161	243,278
Friends in Action	150,052	179,365
Hand to Hand	95,496	101,942
Education and Advocacy	1,925	76,434
Total program services	<b>11,297,846</b>	<b>9,887,719</b>
Supporting services		
Development	438,603	500,025
General and administrative	125,351	104,402
Total supporting services	<b>563,954</b>	<b>604,427</b>
Total expense	<b>11,861,800</b>	<b>10,492,146</b>
Change in unrestricted net assets from operations	<b>(3,478)</b>	<b>(217,822)</b>
Loans forgiven - Note H	175,000	206,168
Change in unrestricted net assets	<b>171,522</b>	<b>(11,654)</b>
<b>Temporarily restricted activities</b>		
Contributions	365,168	583,190
Net assets released from restriction - Note J	<b>(384,092)</b>	<b>(519,801)</b>
Change in temporarily restricted net assets	<b>(18,924)</b>	<b>63,389</b>
<b>Change in net assets</b>	<b>152,598</b>	<b>51,735</b>
Net assets, beginning of year	1,189,864	1,138,129
<b>Net assets, end of year</b>	<b>\$ 1,342,462</b>	<b>\$ 1,189,864</b>

See notes to the consolidated financial statements.

Interfaith Works, Inc. & Affiliate

Consolidated Statement of Functional Revenue and Expense  
Year Ended June 30, 2014 with 2013 Totals

	Program Services							Supporting Services		2014 Total	2013 Total
	Interfaith Clothing Centers	Homeless Services	Interfaith Housing Coalition	Congregation & Community	Friends in Action	Hand to Hand	Education and Advocacy	Development	General and Administrative		
<b>Revenue and support</b>											
Donated goods, facilities, and services - Note L	\$ 5,250,197	\$ 583,907	\$ 650	\$ 1,798	\$ 25,460	\$ -	\$ -	\$ -	\$ 114,801	\$ 5,976,813	\$ 5,258,530
Federal, state, and county contracts	105,845	3,896,150		78,018	61,800	15,000			18,215	4,175,028	3,054,304
Contributions and loans forgiven - Note H	60,451	67,730	239,533	141,610	23,868	6,976		156,712	524,844	1,221,724	1,540,334
Rental income - Note G			283,258							283,258	290,678
Program income	29,042	182,273		585		723			50	212,673	194,791
Investment income - Note D			15,976						21,638	37,614	24,181
	5,445,535	4,730,060	539,417	222,011	111,128	22,699	-	156,712	679,548	11,907,110	10,362,818
Special events								122,181		122,181	199,930
Less costs of direct benefits to donors								(14,893)		(14,893)	(18,867)
	-	-	-	-	-	-	-	107,288	-	107,288	181,063
Total revenue and support	5,445,535	4,730,060	539,417	222,011	111,128	22,699	-	264,000	679,548	12,014,398	10,543,881
<b>Expense</b>											
Donated goods and services - Note L	5,163,872	202,925	650	1,798	25,460				114,801	5,509,506	4,791,223
Salaries and wages	207,885	2,584,808	160,272	50,434	80,865	53,420		119,987	178,719	3,436,390	3,083,215
Taxes and related benefits - Note M	36,022	485,397	25,622	7,933	11,067	10,949		29,902	58,136	665,028	564,224
Client support - Note N	1,147	470,064	40,949	100,574	1,504	18,201		7,322	850	640,611	498,456
Donated facilities - Note L	86,325	380,982								467,307	467,307
Professional fees	2,778	47,766	1,766	9,322	1,766	586	1,500	102,724	42,391	210,599	115,961
Depreciation and amortization	4,278	73,249	74,856	2,016	2,741	1,008	306	6,238	6,136	170,828	175,102
Computers and furniture	4,288	85,290	2,367	1,628	2,449	814		10,175	7,515	114,526	103,207
Repairs and maintenance	7,350	66,508	960	548	831	274		1,911	1,637	80,019	71,634
Telephone and communications	7,455	54,198	2,789	1,370	2,245	604		5,594	5,366	79,621	62,002
Accounting, audit, and finance	2,001	40,470	3,340	1,006	1,514	503		4,473	10,389	63,696	62,893
Fundraising		992						56,485		57,477	28,364
Rent and utilities	72	11,419	7,614	3,952	5,924	1,976		13,819	11,839	56,615	43,719
Grants to others				54,298						54,298	128,658
Printing and production	3,417	15,071	604	402	650	201		30,224	254	50,823	48,176
Interest	146	2,864	22,985	72	110	36		256	19,931	46,400	51,053
Homeowners association fees			32,124							32,124	34,892
Office and supplies	4,627	12,395	1,599	1,519	1,783	373		3,590	2,226	28,112	29,186
Insurance	2,225	18,257	518	376	518	140		1,209	(89)	23,154	23,017
Travel and transportation	1,648	11,025	6,244	705	1,866	5		948	135	22,576	18,004
Postage and delivery	42	1,496	349	765	343	382		11,826	2,221	17,424	17,040
Personnel-related expenses	845	10,934	433	171	563	5		2,901	914	16,766	42,329
Property taxes and licenses	125	1,568	6,591						200	8,484	7,715
Conferences and meetings	42	1,207	32	1,472	32	77		1,630	598	5,090	12,943
Newsletter	162	3,276	121	80	121	40		283	243	4,326	11,826
Total expense before allocation	5,536,752	4,582,161	392,785	240,441	142,352	89,594	1,806	411,497	464,412	11,861,800	10,492,146
Overhead allocation	18,876	263,373	265	15,720	7,700	5,902	119	27,106	(339,061)	-	-
Total expense	5,555,628	4,845,534	393,050	256,161	150,052	95,496	1,925	438,603	125,351	11,861,800	10,492,146
<b>Change in net assets</b>	<b>\$ (110,093)</b>	<b>\$ (115,474)</b>	<b>\$ 146,367</b>	<b>\$ (34,150)</b>	<b>\$ (38,924)</b>	<b>\$ (72,797)</b>	<b>\$ (1,925)</b>	<b>\$ (174,603)</b>	<b>\$ 554,197</b>	<b>\$ 152,598</b>	<b>\$ 51,735</b>

See notes to the consolidated financial statements.

# Interfaith Works, Inc. & Affiliate

## Consolidated Statements of Cash Flows

<b>Year Ended June 30,</b>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 152,598	\$ 51,735
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net gain on investments	(31,214)	(14,420)
Depreciation and amortization	170,828	175,102
Forgiveness of debt	(175,000)	(206,168)
Changes in assets and liabilities		
Accounts receivable	(198,658)	(117,495)
Promises to give	899	4,029
Prepaid expenses and other assets	5,539	(13,716)
Accounts payable and accrued expenses	58,242	38,410
Tenant security deposits	(217)	(379)
Total adjustments	(169,581)	(134,637)
Net cash used in operating activities	(16,983)	(82,902)
<b>Cash flows from investing activities</b>		
Purchases of investments	(6,037)	(9,078)
Purchases of property and equipment	(31,882)	(22,042)
Net cash used in investing activities	(37,919)	(31,120)
<b>Cash flows from financing activities</b>		
Proceeds from lines-of-credit	220,000	-
Payments on lines-of-credit	(220,000)	-
Principal payments on notes payable	(35,648)	(36,028)
Net cash used in financing activities	(35,648)	(36,028)
<b>Net decrease in cash and cash equivalents</b>	<b>(90,550)</b>	<b>(150,050)</b>
Cash and cash equivalents, beginning of year	774,999	925,049
<b>Cash and cash equivalents, end of year</b>	<b>\$ 684,449</b>	<b>\$ 774,999</b>
<b>Noncash financing activities</b>		
Notes payable refinanced	\$ -	\$ 421,313
Debt issuance costs paid with refinancing loan proceeds	-	3,687
Noncash financing activities	\$ -	\$ 425,000
<b>Supplemental disclosures of cash flow information</b>		
Donated stock liquidated to cash	\$ 108,578	\$ 11,138
Cash paid during the year for interest	\$ 46,400	\$ 51,053

See notes to the consolidated financial statements.



# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Interfaith Works, Inc. (IW), a non-profit corporation, was established in 1972 and incorporated in 1978 under the laws of the State of Maryland. IW is a non-sectarian interfaith coalition of more than 165 affiliated congregations of diverse faiths, working together to meet the needs of the poor and homeless in Montgomery County, Maryland. IW's programs shelter, clothe, and feed our neighbors in need and provide supportive services with the goal of helping them achieve self-sufficiency. IW is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation under Section 509(a)(1).

The Interfaith Housing Coalition, Inc. (IHC) is a non-profit organization founded in 1987 under the laws of the State of Maryland. IHC provides permanent, supportive housing to formerly homeless families in 26 housing units scattered throughout the County. IHC is exempt from the payment of income taxes on its exempt purpose activities under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation under Section 509(a)(1).

Principles of consolidation: The consolidated financial statements include the accounts of IW and IHC (the Organization). Significant intra-entity accounts and transactions have been eliminated in consolidation.

Uncertainty in income taxes: The Organization believes that it has appropriate support for income tax positions taken. Therefore, management has not identified any uncertain income tax positions. Generally, tax returns related to the current and three prior years remain open for examination by taxing authorities.

Basis of accounting: The Organization prepares its financial statements on the accrual basis of accounting. Consequently, revenue, other than contributions, is recognized when earned and expense when the obligation is incurred.

Use of estimates: Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and cash equivalents: For financial statement purposes, the Organization considers demand deposits and money market accounts to be cash and cash equivalents.

Accounts receivable: Accounts receivable consists primarily of amounts due relating to state and county contracts. Accounts receivable are presented at the gross amount due to the Organization. Balances deemed to be uncollectible are charged directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts had been recorded.

Contributions: Contributions are recorded as unrestricted or temporarily restricted support depending upon the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated purpose restriction is accomplished or when a time restriction expires), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Notes to the Consolidated Financial Statements

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A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in the appropriate restricted net asset class. It is the Organization's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as increases in temporarily restricted net assets. The Organization reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense relating to the donated property and equipment.

Program income: Program income consists of rental payments and other fees for services provided to clients. Payments are recorded as revenue in the period earned or as services are performed.

Costs of direct benefits to donors: IW conducts special events in which a portion of the gross proceeds represents both a contribution and a payment for the direct benefits received by the participant at the event. Typically, direct benefits to donors relates to the cost of meals and entertainment provided at special events.

Program services: Program services descriptions are as follows:

*Interfaith Clothing Centers:* Interfaith Clothing Centers give away clothing and household goods, provide new infant supplies to expectant parents, offer books to children, and distribute school supplies for low-income families.

*Homeless Services:* Wilkins Avenue Women's Assessment Center and Shelter works with approximately 300 homeless women who are committed to addressing the issues causing their homelessness and provides access to mental health treatment, addictions counseling, and job skills training. Horizon Houses is a permanent supportive housing program serving approximately 32 homeless disabled women and men annually. They reside in five shared group homes and, with case-worker support, work toward independence and self-sufficiency. Carroll House Men's Transitional Shelter works with approximately 70 homeless men annually, providing case management support to address issues causing their homelessness and access to resources in the community. Becky's House provides supportive housing for approximately eight elderly, homeless, disabled women, up to 10 women in a year. Full-time staff provides services for the residents. Watkins Mill is a transitional housing program that serves approximately 15 mentally disabled women annually. Interfaith Homes is a permanent supportive housing program supporting 14 to 18 disabled women and men annually. They reside in 14 apartments and, with case-worker support, work toward independence and self-sufficiency. Community Vision provides services for 70 to 100 homeless adults on a daily basis. Clients access mental health services; addictions treatment support; life skills development; resource referral; vocational services; and employment training, meals, laundry, and showers. Community Vision also provides seasonal night shelter for hypothermia and hyperthermia, serving approximately 300 homeless adults annually.

## Notes to the Consolidated Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

*Interfaith Housing Coalition:* The Interfaith Housing Coalition, Inc. (IHC) purchases and maintains homes to be used as permanent supportive housing for qualified low-income individuals and families. IHC provides intensive case management to tenants who receive employment counseling, life skills education and the opportunity to work with a team of mentors. Thus, tenants have resources for self-sufficiency allowing them to move forward to greater independence.

*Congregation & Community Emergency Support:* The Congregation & Community Emergency Support (CCES) function provides resources and technical assistance to IW congregations and non-profit agencies; administers grants to prevent evictions/foreclosures and utility cut-offs; buys medicine and food; leverages funds to address unmet needs; ensures equal access to emergency services; and assesses community needs.

*Friends in Action:* The Friends in Action function links low-income families with volunteer mentoring teams. Mentors provide supportive services, such as tutoring, job coaching, parenting skills training, and legal advice; thus, providing a comprehensive approach to erasing poverty.

*Hand to Hand:* The Hand to Hand function prevents homelessness by providing loans to low-income working families and individuals who are in imminent danger of being evicted.

*Education and Advocacy:* The Education and Advocacy function helps communities work together toward a common vision of social justice by educating and developing congregation and stakeholder participation in the policy-making process.

Supporting services: Supporting services descriptions are as follows:

*Development:* The development function supports efforts to grow current and new revenue sources. IW holds several fund-raising events throughout the year.

*General and Administrative:* The general and administrative function supports the administrative areas of the Organization.

Allocation of expense: The costs of providing various program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Measure of operations: The Organization excludes loans forgiven from the change in net assets from operations.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications: Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on the previously reported change in unrestricted net assets.

Within the statements of activities and functional revenue and expense, amounts previously reported were reclassified as follows:

	Previously Reported	2013 Reclassification	Currently Reported
Revenue and support			
Contributions - unrestricted	\$ 802,882	\$ (51,906)	\$ 750,976
Special events	148,024	51,906	199,930
Less costs of direct benefits to donors	(48,225)	29,358	(18,867)
	<hr/> 902,681	<hr/> 29,358	<hr/> 932,039
Expense			
Development	470,667	29,358	500,025
	<hr/>	<hr/>	<hr/>
Change in unrestricted net assets	<b>\$ 432,014</b>	<b>\$ -</b>	<b>\$ 432,014</b>

In addition, within the statements of functional revenue and expense, certain natural expenses were reclassified to conform to the current year presentation with no effect on previously reported total expense.

Subsequent events: Subsequent events have been evaluated through October 17, 2014, which is the date the consolidated financial statements were available to be issued.

### B. CONCENTRATIONS

Credit risk: The Organization maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. Government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Organization.

Market value risk: The Organization also invests in professionally managed mutual funds. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in these risks could materially affect investment balances and the amounts reported in the consolidated financial statements.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### C. CASH AND CASH EQUIVALENTS

Cash separately segregated either by law or by board-designation is reported as designated cash.

Undesignated and designated cash and cash equivalents consisted of the following at June 30,:

	<b>2014</b>	<b>2013</b>
Undesignated		
Operating	\$ 673,969	\$ 764,302
Designated		
Tenant security deposits	7,752	7,969
Board-designated for endowment	2,728	2,728
Subtotal designated cash	10,480	10,697
	<b>\$ 684,449</b>	<b>\$ 774,999</b>

### D. INVESTMENTS

In accordance with generally accepted accounting principles, the Organization uses the following prioritized input levels to measure fair value of investments. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2 – Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts.

Mutual funds were valued based on quoted prices in active markets. Therefore, the Organization used Level 1 inputs to determine the fair value, measured on a recurring basis, of the following investments at June 30,:

	<b>2014</b>	<b>2013</b>
Mutual funds - fixed income	\$ 125,837	\$ 120,432
Mutual funds - domestic equity	136,465	109,511
Mutual funds - international equity	26,462	21,570
	<b>\$ 288,764</b>	<b>\$ 251,513</b>

Investments have been designated for the Organization's board-designated endowment.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### D. INVESTMENTS – CONTINUED

Investment income consisted of the following for the years ended June 30,:

	2014	2013
Net gain on investments	\$ 31,214	\$ 14,420
Interest and dividends	<u>6,400</u>	<u>9,761</u>
	<u><b>\$ 37,614</b></u>	<u><b>\$ 24,181</b></u>

### E. PROMISES TO GIVE

Unconditional: The Organization recognizes unconditional promises to give as receivables and contribution revenue in the period in which a donor provides a commitment to make a contribution. Promises to give which will be paid over several years have been discounted to net present value using a discount rate of 3.25%. Management periodically reviews the status of all promises to give for collectability. Each balance is assessed based on management's knowledge of and relationship with the donor and the age of the balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to loss on uncollectible promises to give (bad debt). Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for uncollectible promises to give had been recorded.

Promises to give consisted of the following at June 30,:

	2014	2013
Receivable in less than one year	\$ 53,400	\$ 42,750
Receivable in one to four years	<u>6,500</u>	<u>18,315</u>
	59,900	61,065
Less discount to net present value	<u>(654)</u>	<u>(920)</u>
	<u><b>\$ 59,246</b></u>	<u><b>\$ 60,145</b></u>

Conditional: Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Organization received a conditional promise to give totaling \$15,000 during the year ended June 30, 2013. In relation to the gift, the donor specified a dollar-for-dollar matching requirement. The matching requirement was not satisfied during the year ended June 30, 2013. However, during the year ended June 30, 2014, the Organization raised matching contributions in satisfaction of the condition and the donor paid \$15,000 to the Organization.

The Organization received no new conditional promises to give during the year ended June 30, 2014.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### F. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$1,000 are recorded at cost, and depreciated using the straight-line method over estimated useful lives (buildings – 10 to 27.5 years; building improvements – 10 to 20 years; and furniture, equipment, and vehicles – 3 to 10 years). Leasehold improvements are amortized using the straight-line basis over the remaining term of the lease.

Property and equipment consisted of the following at June 30,:

	2014	2013
Land	\$ 666,092	\$ 666,092
Building and improvements	1,700,948	1,692,395
Leasehold improvements	474,548	474,548
Furniture and equipment	495,066	472,376
Vehicles	66,234	66,234
	<u>3,402,888</u>	<u>3,371,645</u>
Less accumulated depreciation and amortization	<u>(1,727,514)</u>	<u>(1,557,325)</u>
	<u><b>\$ 1,675,374</b></u>	<u><b>\$ 1,814,320</b></u>

Donated facilities: Montgomery County has donated the use of the Sophia House to the Organization in conjunction with the Homeless Services program. In order to use the facility, the Organization is responsible for maintaining the property. The value of the free use of the Sophia House has been recorded as donated facilities.

### G. TENANT LEASES

The Organization has approximately 40 rental units available for leasing on a month-to-month basis to qualified low-income individuals and families. Although several tenants renew their leases each year, the Organization does not have any tenant leases with terms greater than one year. The Organization's rental income was \$283,258 and \$290,678 for the years ended June 30, 2014 and 2013, respectively.

Cash received from tenants for security deposits is restricted by state law and, therefore, cannot be used for the Organization's operations. Interest on security deposits, calculated at a rate of 4% per annum if not held in a separate interest bearing account, is required to be paid to tenants upon termination of tenancy. Cash held by the Organization as security deposits amounted to \$7,752 and \$7,969 at June 30, 2014 and 2013, respectively.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### H. FORGIVABLE NOTES PAYABLE

Montgomery County provides funding to the Organization in the form of promissory notes that will be forgiven if certain conditions are met, some of which are as simple as the passage of time. The Organization's forgivable notes payable are included in liabilities until the conditions of debt forgiveness have been met.

Management believes the conditions of debt forgiveness will be met. However, if the stipulated conditions of debt forgiveness are not met, the notes payable will be repaid in accordance with the promissory notes.

The Organization's two forgivable notes payable, grouped by the fiscal year in which the notes are eligible to be forgiven, consisted of the following at June 30, 2014:

Year Ending June 30,	Amount
2015	\$ 4,848
2038	<u>588,470</u>
	<u><b>\$ 593,318</b></u>

Debt forgiveness: Forgivable notes payable totaling \$175,000 and \$206,168 were either forgiven ahead of schedule or met the conditions of debt forgiveness during the years ended June 30, 2014 and 2013, respectively. Therefore, loans forgiven totaling \$175,000 and \$206,168 were recognized as unrestricted revenue during the years ended June 30, 2014 and 2013, respectively.



# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### I. NOTES PAYABLE

The Organization has financed the acquisition of various housing properties through several mortgage notes payable from various lenders such as financial institutions, the State of Maryland Department of Housing and Community Development, and the Montgomery County Department of Housing. The Organization has also financed certain building improvements through unsecured notes payable from the Montgomery County Department of Housing. The mortgages are collateralized by the related properties.

The mortgage notes payable have no restrictive debt covenants, have various interest rates and maturities, and consisted of the following, grouped by interest rate, at June 30, 2014:

Type of Note	Rate	Maturity	Principal
Mortgage	1.00%	2041	\$ 63,666
Mortgage	3.00%	2026	6,012
Mortgages (2)	4.00%	2026	49,845
Mortgage	4.25%	2026	96,532
Mortgage	4.61%	2023	411,078
Mortgage	5.25%	2019	307,525
			<b>\$ 934,658</b>

Refinancing: During May 2013, the Organization obtained \$425,000 in the form of a new loan from a bank as a debt obligation of IW. With the new mortgage, the Organization refinanced 10 existing mortgages which were IHC's debt obligations. The new mortgage is collateralized by the five IHC properties to which they relate and IHC is a guarantor of the IW mortgage.

Lines-of-credit: The Organization also has two lines-of-credit with a commercial bank and the total available for draw down under the lines-of-credit is \$675,000. The lines-of-credit are both secured by various properties owned by the Organization. A total of \$220,000 was drawn on the lines-of-credit and subsequently repaid during the year ended June 30, 2014. There were no draw-downs during the year ended June 30, 2013. Therefore, there is no balance due at June 30, 2014 or 2013 on the lines-of-credit.

Future maturities of principal under the notes payable are as follows at June 30, 2014:

Year Ending June 30,	Amount
2015	\$ 39,585
2016	41,400
2017	43,390
2018	45,431
2019	277,478
Thereafter	487,374
	<b>\$ 934,658</b>

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### J. NET ASSETS

Unrestricted: Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. Undesignated net assets are used for the general operations of the Organization.

Designated net assets include those net assets whose use by the Organization has been designated by resolution of the Board of Directors.

Unrestricted net assets consisted of the following at June 30,:

	2014	2013
Undesignated	\$ 848,151	\$ 713,880
Designated		
Board-designated for endowment	291,492	254,241
Board Reserve	90,605	90,605
McGregor Fund	20,551	20,551
Advocacy Fund (Dring)	2,023	2,023
Subtotal designated	404,671	367,420
	<b>\$ 1,252,822</b>	<b>\$ 1,081,300</b>

Temporarily restricted: Temporarily restricted net assets include those net assets whose use by the Organization has been donor restricted by specified purpose or time limitations.

Temporarily restricted net assets consisted of the following at June 30,:

	2014	2013
Program restrictions		
Interfaith Clothing Centers	\$ 24,500	\$ 21,500
Education and Advocacy	13,176	14,675
Congregation & Community Emergency Support	9,000	12,642
Homeless Services	8,800	7,500
Friends in Action	5,000	-
	60,476	56,317
Time restrictions		
Computers and software	16,564	25,432
Promises to give - for future use	12,600	26,815
	29,164	52,247
	<b>\$ 89,640</b>	<b>\$ 108,564</b>

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### J. NET ASSETS – CONTINUED

Net assets were released from restrictions either by incurring expenses satisfying the donor's restricted purpose or by the passage of time which allowed for the expiration of time restrictions.

Net assets released from restrictions consisted of the following for the years ended June 30,:

	2014	2013
Satisfaction of program restrictions		
Congregation & Community Emergency Support	\$ 145,252	\$ 103,308
Homeless Services	66,429	143,197
Interfaith Housing Coalition	64,533	132,372
Interfaith Clothing Centers	57,451	54,665
Friends in Action	18,868	27,855
Hand to Hand	6,976	22,049
Education and Advocacy	1,500	21,200
Subtotal program restrictions	<u>361,009</u>	<u>504,646</u>
Expiration of time restrictions		
Promises to give - for future use	14,215	6,287
Computers and software	8,868	8,868
Subtotal time restrictions	<u>23,083</u>	<u>15,155</u>
	<u>\$ 384,092</u>	<u>\$ 519,801</u>

### K. ENDOWMENT

The Organization's endowment consists of a fund designated by the Board of Directors to function as an endowment, which is classified as a designated fund within unrestricted net assets.

#### *Return Objectives and Risk Parameters*

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. As part of the Organization's continuing diversification and risk management strategy, a portion of endowment funds are invested in cash, fixed income securities, and equity securities. The investment portfolio is intended to produce returns higher than inflation. As a result, a fair amount of risk is deemed acceptable.

#### *Strategies Employed for Achieving Objectives*

To satisfy its long-term objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places more emphasis on equity securities to achieve its long-term return objectives.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### K. ENDOWMENT – CONTINUED

*Spending Policy and How Investment Objectives Relate to Spending Policy*

The Organization's spending policy allows appropriation of the annual income upon approval of the Board. In establishing this policy, the Organization considered the long-term expected return on its endowment. The spending policy is consistent with the Organization's objective to maintain the purchasing power of the endowment assets.

Changes in the endowment fund consisted of the following for the years ended June 30,:

	<b>2014</b>	<b>2013</b>
Endowment, beginning of year	\$ 254,241	\$ 230,743
Investment return		
Net gain on investments	31,214	14,420
Interest and dividends	6,037	9,078
Total investment return	37,251	23,498
Endowment, end of year	<b>\$ 291,492</b>	<b>\$ 254,241</b>

### L. DONATED GOODS, FACILITIES, AND SERVICES

Recorded amounts: Donated goods, facilities, and services are recognized as contributions in accordance with accounting principles generally accepted in the United States of America. Donated goods are valued at yard-sale value using guidance from IRS Publication 561, *Determining the Value of Donated Property*. Donated facilities are recorded based on the fair value of the rental space. Donated services are recognized at fair value if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Donated goods, facilities, and services recorded in the consolidated statement of activities consisted of the following for the year ended June 30, 2014:

	<b>Goods</b>	<b>Facilities</b>	<b>Services</b>	<b>Total</b>
Interfaith Clothing Centers	\$ 5,163,872	\$ 86,325	\$ -	\$ 5,250,197
Homeless Services	199,175	380,982	3,750	583,907
General and administrative	8,416		106,385	114,801
Friends in Action	25,460			25,460
Congregation & Community				
Emergency Support			1,798	1,798
Interfaith Housing Coalition	650			650
	<b>\$ 5,397,573</b>	<b>\$ 467,307</b>	<b>\$ 111,933</b>	<b>\$ 5,976,813</b>

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### L. DONATED GOODS, FACILITIES, AND SERVICES – CONTINUED

Donated goods, facilities, and services recorded in the consolidated statement of activities consisted of the following for the year ended June 30, 2013:

	Goods	Facilities	Services	Total
Interfaith Clothing Centers	\$ 4,441,256	\$ 86,325	\$ -	\$ 4,527,581
Homeless Services	229,044	380,982	4,600	614,626
General and administrative	31,058		53,430	84,488
Friends in Action	26,895			26,895
Congregation & Community Emergency Support	30		1,610	1,640
Interfaith Housing Coalition	3,300			3,300
	<b>\$ 4,731,583</b>	<b>\$ 467,307</b>	<b>\$ 59,640</b>	<b>\$ 5,258,530</b>

Unrecorded amounts: Many individuals volunteer their time and perform a variety of tasks that assist the Organization with the administration of its programs. Without these volunteers, the Organization would have to hire additional staff to maintain the level of service provided to its clients. Although greatly appreciated by the Organization, accounting principles generally accepted in the United States of America do not allow such services to be recorded in the consolidated statement of activities.

Management has estimated the value of these unrecorded donated services as follows for the years ended June 30,:

	2014	2013
Homeless Services	\$ 649,965	\$ 661,975
Interfaith Clothing Centers	558,595	660,359
Congregation & Community Emergency Support	73,391	62,169
Friends in Action	70,950	35,468
General and administrative	55,418	62,342
Interfaith Housing Coalition	2,441	1,107
	<b>\$ 1,410,760</b>	<b>\$ 1,483,420</b>

### M. RETIREMENT PLAN

The Organization has a defined contribution 403(b) salary deferral and savings incentive plan, which covers all eligible employees who meet age and length of service requirements. Under the plan, the Organization may make employer discretionary contributions. The Organization provides a matching contribution equal to 1% of participant compensation and may provide an additional discretionary contribution. The Organization's contributions under the plan totaled \$22,874 and \$19,298 for the years ended June 30, 2014 and 2013, respectively.

# Interfaith Works, Inc. & Affiliate

## Notes to the Consolidated Financial Statements

### N. COMMITMENTS AND CONTINGENCIES

Administrative operating leases: The Organization has an operating lease for its administrative offices with Rockville United Methodist Church (RUMC). The Organization and RUMC have reached a mutual understanding that the lease arrangement will continue on a month-to-month basis until further notice. The Organization also has an operating lease for copier equipment which expires December 2018. Rent expense relating to the administrative leases totaled \$63,498 and \$49,599 for the years ended June 30, 2014 and 2013, respectively.

Homeless Services operating leases: The Organization also has operating leases for six houses and several apartments which are occupied by clients of the Homeless Services program. All of the Homeless Services program leases expire within one year except for two residential leases located at Shea Lane and Grandin Avenue which expire in August 2016 and August 2017, respectively. The rent expense relating to the Homeless Services leases is reported within client support in the consolidated statement of functional revenue and expense and totaled \$351,141 and \$224,531 for the years ended June 30, 2014 and 2013, respectively.

Future minimum lease payments for the above leases are as follows at June 30, 2014:

Year Ending June 30,	Administrative Copier Equipment	Homeless Services Residential	Total
2015	\$ 14,280	\$ 60,940	<b>\$ 75,220</b>
2016	14,280	61,140	<b>75,420</b>
2017	14,280	10,190	<b>24,470</b>
2018	14,280		<b>14,280</b>
2019	7,140		<b>7,140</b>
	<b>\$ 64,260</b>	<b>\$ 132,270</b>	<b>\$ 196,530</b>

Program audits: Certain programs are funded by contracts with Montgomery County and are subject to audit by the County. Until such audits have been completed, a contingency exists that the Organization could be obligated to refund amounts received in excess of allowable costs. Management believes that no material liability will result from the County's program audits.

Federal awards: The Organization participates in a number of federally assisted grant programs which are subject to financial and compliance audits by federal agencies or their representatives. Therefore, a contingent liability may exist for potential questioned costs that would result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit.

Security deposits: As stipulated in certain tenant lease agreements and by state law, the Organization must meet certain requirements in maintaining security deposits received from tenants. If the Organization is found to be non-compliant with the requirements, it could be liable for up to three times the amount of the original security deposit, plus reasonable attorney's fees.

Threatened litigation: The Organization has been named as a defendant in a discrimination lawsuit. However, the Organization believes the claim is without merit and plans to vigorously defend its position. Therefore, the accompanying consolidated financial statements do not include a potential liability related to the threatened litigation.

T A T E



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Certified Public

Accountants

and Consultants

## Independent Auditor's Report on the Supplementary Information

To the Board of Directors  
Interfaith Works, Inc. & Affiliate

We have audited the consolidated financial statements of Interfaith Works, Inc. & Affiliate (the Organization) as of and for the year ended June 30, 2014, and our report thereon dated October 17, 2014, which contained an unmodified opinion on those consolidated financial statements, appears on page one. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on the following pages is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. In particular, the consolidating financial statements are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, or cash flows of the individual companies. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on the following pages is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Washington, DC  
October 17, 2014

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# Interfaith Works, Inc. & Affiliate

## Consolidating Statement of Financial Position

*June 30, 2014*

	IW	IHC	Eliminations	Consolidated
<b>Assets</b>				
Cash and cash equivalents	\$ 523,035	\$ 161,414	\$ -	\$ 684,449
Investments	288,764			288,764
Accounts receivable	438,182	1,723		439,905
Promises to give	59,246			59,246
Due from affiliate		148,670	(148,670)	-
Loan guarantee from IHC	411,078		(411,078)	-
Prepaid expenses and other assets	61,307	23,252		84,559
Property and equipment	656,870	1,018,504		1,675,374
<b>Total assets</b>	<b>\$ 2,438,482</b>	<b>\$ 1,353,563</b>	<b>\$ (559,748)</b>	<b>\$ 3,232,297</b>
<b>Liabilities and net assets</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 335,205	\$ 18,902	\$ -	\$ 354,107
Due to affiliate	156,209		(156,209)	-
Loan guarantee to IW		403,539	(403,539)	-
Tenant security deposits		7,752		7,752
Forgivable notes payable	593,318			593,318
Notes payable	411,078	523,580		934,658
<b>Total liabilities</b>	<b>1,495,810</b>	<b>953,773</b>	<b>(559,748)</b>	<b>1,889,835</b>
<b>Net assets</b>				
Unrestricted	853,032	399,790		1,252,822
Temporarily restricted	89,640			89,640
<b>Total net assets</b>	<b>942,672</b>	<b>399,790</b>	<b>-</b>	<b>1,342,462</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,438,482</b>	<b>\$ 1,353,563</b>	<b>\$ (559,748)</b>	<b>\$ 3,232,297</b>



# Interfaith Works, Inc. & Affiliate

## Consolidating Statement of Activities

*Year Ended June 30, 2014*

	IW	IHC	Eliminations	Consolidated
<b>Unrestricted activities</b>				
Revenue and support				
Donated goods, facilities, and services	\$ 5,976,163	\$ 650	\$ -	\$ 5,976,813
Federal, state, and county contracts	4,175,028	15,998	(15,998)	4,175,028
Contributions	701,108		(19,552)	681,556
Rental income		283,258		283,258
Program income	212,673			212,673
Investment income	21,638	15,976		37,614
	11,086,610	315,882	(35,550)	11,366,942
Special events	122,181			122,181
Less costs of direct benefits to donors	(14,893)			(14,893)
	107,288	-	-	107,288
Net assets released from restriction	320,409	63,683		384,092
Total support and revenue	11,514,307	379,565	(35,550)	11,858,322
Expense				
Program services				
Interfaith Clothing Centers	5,555,628			5,555,628
Homeless Services	4,845,534			4,845,534
Interfaith Housing Coalition	43,313	371,929	(22,192)	393,050
Congregation & Community Emergency Support	256,161			256,161
Friends in Action	150,052			150,052
Hand to Hand	95,496			95,496
Education and Advocacy	1,925			1,925
Total program services	10,948,109	371,929	(22,192)	11,297,846
Supporting services				
Development	438,603			438,603
General and administrative	99,677	39,032	(13,358)	125,351
Total supporting services	538,280	39,032	(13,358)	563,954
Total expense	11,486,389	410,961	(35,550)	11,861,800
Change in unrestricted net assets from operations	27,918	(31,396)	-	(3,478)
Loans forgiven		175,000		175,000
Change in unrestricted net assets	27,918	143,604	-	171,522
<b>Temporarily restricted activities</b>				
Contributions	301,485	63,683		365,168
Net assets released from restriction	(320,409)	(63,683)		(384,092)
Change in temporarily restricted net assets	(18,924)	-	-	(18,924)
<b>Change in net assets</b>				
Change in net assets	8,994	143,604	-	152,598
Net assets, July 1, 2013	933,678	256,186	-	1,189,864
<b>Net assets, June 30, 2014</b>	<b>\$ 942,672</b>	<b>\$ 399,790</b>	<b>\$ -</b>	<b>\$ 1,342,462</b>

## Interfaith Works, Inc. & Affiliate

### Consolidated Statement of Expense, Net of In-Kind Year Ended June 30, 2014 with 2013 Totals

	2014			2013
	Expense	In-Kind	Expense Net of In-Kind	Expense Net of In-Kind
Program services				
Interfaith Clothing Centers	\$ 5,555,628	\$ (5,250,197)	\$ 305,431	\$ 297,768
Homeless Services	4,845,534	(583,907)	4,261,627	3,375,854
Interfaith Housing Coalition	393,050	(650)	392,400	467,571
Congregation & Community Emergency Support	256,161	(1,798)	254,363	241,638
Friends in Action	150,052	(25,460)	124,592	152,470
Hand to Hand	95,496		95,496	101,942
Education and Advocacy	1,925		1,925	76,434
Total program services	11,297,846	(5,862,012)	5,435,834	4,713,677
Supporting services				
Development	438,603		438,603	500,025
General and administrative	125,351	(114,801)	10,550	19,914
Total supporting services	563,954	(114,801)	449,153	519,939
Total expense	\$ 11,861,800	\$ (5,976,813)	\$ 5,884,987	\$ 5,233,616

Certain prior year amounts have been reclassified for comparative purposes.